LYNCHBURG REGIONAL AIRPORT
COMMISSION MEMBER UPDATE

Monday, March 15, 2010

REPORT

LYH AIRLINE PASSENGER TRAFFIC STARTS 2010 WITH MORE GROWTH

Despite challenging winter weather conditions that resulted in a total of 16 cancelled flights in February compared to just two the same month last year, passenger boardings increased a healthy 11.6 percent compared to the same month a year ago. Passenger load factors settled within a familiar range for our two carriers, with the Delta RJ posting an 86 percent load factor, and US Airways maintaining a mid-seventies level that has become a stable level for the carrier through careful allocation of discount seat availability.

In March, US Airways began a fourth flight on Saturdays, with plans to add a fifth daily flight beginning in May. Although the fifth flight will arrive mid-evening and return to Charlotte without remaining over night (and therefore adding to our early morning departure schedule), any additional frequency and seat capacity is welcome. I've also learned that Delta Connection will be adding a third flight on Tuesdays starting in May as well, bringing RJ service up to three departures daily, six days of the week.

Not surprisingly, though, general aviation activity took a hit in February due to the winter weather, experiencing a 28 percent decline in operations compared to the same month last year. Year-to-date, GA operations are now down by 23 percent.

TERMINAL ECONOMY PARKING LOT NEARS CAPACITY

Due to a combination of more flights, college spring break and an up tick in business travel, by Tuesday afternoon last week the passenger terminal's economy lot was bursting at the seams with just 23 empty spaces left. With a total of 313 economy spaces and 95 close-in, that represents an all-time record for paid parking in the terminal lot. Airport staff will continue to monitor parking demand closely, and have made plans to add an entrance from the economy lot to one of our employee parking lots to provide for overflow parking to accommodate the additional airline flights we have starting in May.

CENTRA HEALTH TO PROVIDE MEDLIGHT SERVICES THROUGH PHI

I was recently informed by Centra Health of its decision to switch emergency medical helicopter providers from the Virginia State Police to Petroleum Helicopters International (PHI), effective May 1, 2010. I was told that the change was necessary due to the state police unit's lack of a commercial FAR Part 135 certificate. Since Medicaid and most medical insurers require such operations to be conducted under Part 135 now, Centra found that as a result they could not be reimbursed for flights operated by the state police. I have also been told by the head of the state police aviation unit that the state police will continue to provide aerial law enforcement services with one helicopter and one fixed-wing aircraft from their LYH base.

I have included on the Commission's agenda a review of the applications of Centra Health and PHI for authority to operate on the airport under our minimum operating standards. The documents have been included as part of your Commission package. An official from Centra Health will also be on hand to answer any questions that Commission members may have.

PASSENGER TERMINAL ADDS NEW FOOD CONCESSION

I am pleased to report that the airline passenger terminal will shortly see the return of a food concession operator. After standing vacant for almost two years, the airport food kiosk will be open for business again, with local business owners Thomas and Michelle Buffin opening an airport terminal site as the new expansion location of their restaurant, Bagel-licious.

Operating as a countertop restaurant, the kiosk will offer a variety of breakfast and lunch sandwiches which will be prepared at the Lakeside restaurant and sold at the kiosk as "on-the-go" fare, along with coffee, bottled beverages, assorted bagels, cream cheese, and other miscellaneous baked items. The restaurant's operating hours will coincide with current flight schedules.

The Buffins are in the process of completing the application process and are awaiting approval by Campbell County. It is hoped that the concession will be open for business in early April.

ITEMS FOR THE AGENDA

In addition to the usual airport director reports, the Commission will take under consideration the minimum standards applications of Centra Health and PHI as new operators on the airport. There will also be an update by Jones Stanley as chairman of the air show committee on progress being made on a possible future air show at Lynchburg Regional Airport.

If you have any questions or comments about the upcoming Commission meeting, feel free to call me on at (434) 455-6089.

Respectfully yours,

Mark F. Courtney

Mark F. Courtney, A.A.E.
Airport Director

LYNCHBURG REGIONAL AIRPORT COMMISSION
Monday, March 22, 2010
4:00 p.m.

AGENDA FOR THE COMMISSION

1. Call to Order

CONSENT AGENDA

2. January 25, 2010 Commission Meeting Minutes
3. Lynchburg Regional Airport March 2010 Air Service Update
4. February 2010 Passenger Traffic Report

   Consent Agenda Recommended Action: Receive and File

REGULAR AGENDA

5. Report of the Airport Director

   A. A report with regards to current air service development activity at LYH and presentation of relevant market data to support Washington Dulles air service.

   B. An update regarding scheduled completion of the new Aircraft Rescue and Fire Fighting (ARFF) building.

   C. A status report on the airport's tenant/airport maintenance program.

   D. A report with regards to FY 2010 grant funded airport capital improvement projects (ACIP).

6. Consideration by the Commission of applications by Centra Health and Petroleum Helicopters International (PHI) to operate a medical helicopter service at LYH.

   Commission Action: Make recommendation to airport director to issue Airport Business Licenses and/or develop applicable lease document(s)

7. An update by Commission member Jones Stanley regarding planning for a possible air show at LYH.

8. Miscellaneous business

   A. Inquiries and/or comments by Commission Members

9. Reports of airport businesses

10. Hearings of citizens upon Commission matters

11. Adjournment

MINUTES OF

THE

LYNCHBURG REGIONAL AIRPORT COMMISSION MEETING

January 25, 2010

4:00 p.m.

PRESENT:

Don Banker
Darren Gale
David Laurrell
Stewart Hobbs
David Young
Kimball Payne
Jones Stanley
Janice Crawford
Billy Giles

ABSENT:

STAFF PRESENT:

Mark Courtney, Airport Director
Rick Stein, Deputy Airport Director
Wes Campbell, Airport Finance Director

(1) CALL TO ORDER:

Mr. Don Banker, Chairman, called the meeting to order at 4:00 p.m.

(2) APPROVAL OF January 25, 2010 CONSENT AGENDA

Mr. Banker confirmed that everyone had received the items from the consent agenda: the November 23, 2009 Commission Meeting Minutes, the January 2010 Air Service Update and the December 2009 Passenger Traffic Report and asked if there were any questions or comments regarding the consent agenda items.

There being no questions or comments, Mr. Banker asked for a motion to receive and file. The motion was made, seconded and unanimously accepted by all.

(3) REPORT OF THE AIRPORT DIRECTOR

A. Overview of relevant year-end airport statistics and airline traffic results

Mr. Courtney presented an overview of airport performance in 2009. By any benchmark or standard, 2009 was the best year that this airport has ever had. The airport finished up by 15% in terms of departures over last year (which was also up by 15% over two years ago.) Airline seats were up in 2008 and increased again by 23% in 2009; however, airline seats were still down 27% compared to December 1999. Mr. Courtney attributed the improved performance to Lynchburg's published fares and the new fare structure which went into effect July of 2008. The lowest average fares to our top twenty-six destinations were actually 8.2% lower over a year ago. He pointed out that while it is interesting and gratifying that we saw a further decrease over what were already good fares over the past year, it also attests to the continued struggles by the airlines in order to try to fill up seats. Passenger traffic in 2008 was down 1.8% compared to 2007; however, 2009 passenger traffic was 57% above that for 2008. The challenge now is to maintain what we have and also build on that with additional flights maybe perhaps new destinations such as a northern hub.

Equipment and flight frequency changes occurred during the year. US Airways added, then dropped, a fifth flight during 2009, and while we really did not lose much in the way of seats, it was unfortunate to lose the 7:10 a.m. departure which was very popular with business travelers. Mr. Courtney is in constant contact with US Airways and is making every effort to obtain the return of this fifth flight.

Lynchburg had an airport-wide load factor of 79% for 2009, just shy of the target load factor of 80% necessary to be profitable at the current pricing structure that we have. Mr. Courtney stated that the airlines are pleased with the 79% load factor. There ensued additional discussion.

Mr. Courtney reported that total aircraft operations for 2009 was around 78,000 take-offs and landings and was not only the highest of the decade, but it was apparently the highest ever for the airport, based on records going back to 1990. He attributed the increase to overall additional general aviation operations and the Liberty School of Aeronautics Program.

Mr. Courtney reported that in 2009 the airport pumped just over 1.2 million gallons of fuel, the highest volume pumped in the decade. More flights resulted in more airline fuel being pumped. Airline fuel was up 54% in volume during 2009 compared to last year, with total fuel being up 4.3% airport wide over 2008. He went on to further discuss this issue.

Mr. Courtney stated that the projected parking lot revenues for this current fiscal year will be around $480,000 to $488,000. Overall airport revenues are generated and stimulated by the additional traffic due to lower fares. He went on to further discuss this issue.

Mr. Courtney stated that expenses for the airport were slightly less than they were in FY 2008 and discussed this in detail.

Mr. Courtney stated that due to the decline in debt service and the steady increase in revenues we are still projecting a FY 10 general fund subsidy of $278,500, which is $7,900 below what we budgeted. He further discussed the issue.

He reported that we are still projecting for FY 13 with a possibility of FY 12 submitting a self sustaining budget for the airport.

Mr. Courtney discussed the advertising campaign featuring the air fares. There ensued a brief discussion.

B. Recent developments regarding possible airline interest in adding service to a northern connecting hub airport under the U.S. Department of Transportation's Small Community Air Service Development Program (SCASDP) grant.

Mr. Courtney reported that there are nine months remaining on this grant before it expires and we continue to make contacts with US Airways for possible Philadelphia service as well as with Delta for service to Detroit. We are still working with Colgan Air for Washington/Dulles service. Colgan Air communicated to Mr. Courtney last week that they are still waiting for the outcome of some further negotiations with United related to their agreement. Mr. Courtney will continue to provide information to Colgan Air as requested. Hopefully we will have a positive outcome within the next nine months.

C. Status of completion of the airport's Master Plan Update and ongoing construction of a new Aircraft Rescue and Fire Fighting (ARFF) building

Mr. Courtney said that the information contained in the Commission Member Update is current with regard to Master Plan Update status. A brief discussion followed.

He reported that ARFF building is two weeks behind schedule due to weather conditions. The original completion date was April of 2010 but has been moved forward to May 2010.

(4) A briefing by Commission member Dave Young regarding the pending acquisition of Falwell Aviation (Jet Center) by Liberty University.

Mr. Dave Young gave a briefing regarding the recent acquisition of Falwell Aviation, which will hopefully be effective February 1, 2010. Mr. Young outlined plan which is to meld the Liberty University Part 141 Flight School, the Liberty school of aeronautics and the Liberty University Part 147 aircraft mechanics training program with Falwell Aviation which has a Part 135 charter business and Part 145 their repair station. The appropriate letters of notification to the FAA and the City have been accomplished regarding the franchise agreement through the City for the airport facilities. They will be operating out of three locations: the Liberty Campus for academic programs, the Jet Center for flying training, and the Plaza Shopping Center location for Part 147 aircraft mechanics training. Falwell's Part 141 Flight Training Program will form a new corporation and will operate out of W24. Mr. Young indicated that Liberty is planning is to move forward with the new facility as they have already outgrown the available facilities, but the timeline has been pushed out a bit. He went on to discuss the project status in greater detail.

Mr. Courtney asked if Falwell Airport was going to be separated from Falwell Aviation as it exists and is structured now. Mr. Young confirmed this as correct and mentioned that Falwell Airport will carry with them the Part 141 the flight training program FAA certification.

(5) A report by the airport director regarding changes in the airport's FY 2010 Airport Capital Improvement Plan (ACIP) and the current status of federal and state grant funding.

Mr. Courtney explained that Liberty's acquisition of Falwell Airport changes our Airport Capital Plan for the current year slightly. He said we have a total of $1,476,000 in Federal Entitlement Funds available to us for Fiscal Year 2010, which ends September 30, 2010. Spending the money requires navigating the bureaucracy, particularly when it comes to the Airports District Office of the FAA. This is complicated by the fact that Congress has been extending and reauthorizing the Airport Improvement Program, and that we still do not have a new reauthorization bill. Congress recently extended the existing AIP Program through March 31st of 2010; however, we just received instructions last week regarding how funds will be distributed and the amount to be made available for each airport. Mr. Courtney stated that we should be able to receive 50% of the $1.476 million entitlement funds if we can get the grant submitted and approved and executed by March 31st. If we don't use the entitlement funds we can rollover or carry forward to fiscal year 2011 half the amount, or about $750,000. Or, we can chance having it roll to the second half of fiscal year 2010, with the risk being that if Congress does not extend the AIP authorization past March 31st of 2010, the entitlements that we carried forward from this first half of the year would not be available to the sponsor in the future. We would basically lose that money. There followed a general discussion.

Mr. Courtney said it was his intent to take the risk and have the funds roll over to the second half of FY 10. He reminded the group that we had earmarked for 2010 the site work for the North GA development area, the Liberty School of Aeronautics, and the replacement of the two escalators in the passenger terminal. Mr. Courtney informed the group that the escalators are malfunctioning again and are in desperate need of replacement. He said because of the acquisition by Liberty of Falwell Aviation and the facilities they have available to them now we will be in a position to go forward with the North GA development site work this fiscal year. Mr. Courtney said his goal is to have the escalators replaced during this first half of the year. He estimated the cost to be about $450,000 to include engineering, design through bid, construction administration and inspections. The followed a brief discussion regarding the escalator project.

Other projects earmarked for FY 10 include the baggage carousel refurbishment, modification and upgrade to the baggage carousel as well as the as the bag check-in conveyor belts. There ensued a general discussion regarding this project.

Mr. Courtney stated that he would like to do a security system upgrade (card reader, access gates, etc.) as well as an upgrade to the fire alarm system. He estimated the cost to be approximately $300,000 to $350,000.

Another significant project currently underway is the replacement of the roof of Hangar #1, Virginia Aviation's maintenance hangar, which does not qualify for any federal or state funding. The bid package has been submitted to procurement and will be going out for bid shortly.

(6) MISCELLANEOUS BUSINESS

A. Inquiries and/or comments by Commission Members

Mr. Banker asked if the were any other inquiries and/or comments by Commission Members.

Mr. Jones Stanley asked what the policy was on opening and closing the airport in bad weather. Mr. Courtney responded that it was based on braking action and went on to further explain.

Mr. Stanley said there were times he thought that pilots could land on the runway when snow covered as long as they were made aware of the situation. He went on to further discuss the issue.

There followed an in-depth discussion.

(7) REPORTS OF AIRPORT BUSINESSES

Mr. Banker asked if there were any reports of airport business.

The Commission was informed that Mr. Jim Lampman was not in attendance due to health issues.

(8) HEARINGS OF CITIZENS UPON COMMISSION MATTERS

Mr. Banker asked if there were any questions or comments from the citizens present.

The question was asked if additional T-hangars were included in the Capital Plan. Mr. Courtney answered affirmatively and further discussion followed.

(9) ADJOURNMENT

There being no further business, the meeting was adjourned.

Mr. Banker announced that the Executive Session would commence. Mr. Courtney read the procedural checklist and moved that the Lynchburg Regional Airport Commission hold a closed meeting as permitted by Virginia Code Section 2.1-344A1 to discuss a personnel matter.

The motion was made, seconded and unanimously accepted by all. The Executive Session commenced.

Following the executive session, the Commission Chairman asked for a certification motion after reconvening in Public Session. The motion was made by Mr. Kim Payne and seconded by Mr. Stewart Hobbs.

Lynchburg Regional Airport Commission

Effective March 2010 **AIR SERVICE UPDATE**

Summary The number of daily departure seats is 337 and the daily departure frequency is 7.

Carrier Profile	Airline	Destination	Departures	Seats	Equipment
	Delta Connection	Atlanta	3	150	CRJ
	US Airways	Charlotte	4	187	DH3 / DH8
		AIRPORT TOTAL:	**7**	**337**	

Delta Connection No changes to report.

US Airways No changes to report.

Destinations Served

Non-Stop	Departures	Total
Atlanta	3	3
Charlotte	4	4
	7	7

Aircraft Types

Aircraft		No. of Departures/Day
DH8	Dash 8	1
DH3	Dash 8-300	3
CRJ	Bombardier CRJ200	3

LYNCHBURG REGIONAL AIRPORT AIR TRAFFIC REPORT FOR FEBRUARY 2010

AIR TRAFFIC REPORT

	MONTH			YR TO DATE TOTALS		PERCENTAGE CHANGES		
	Feb-10	Jan-10	Feb-09	2010	2009	Feb-10 Jan-10	Feb-10 Feb-09	10 YTD 09 YTD
ENPLANED PASSENGERS	6,247	6,361	5,598	12,608	10,924	-1.8%	11.6%	15.4%
DEPLANED PASSENGERS	5,905	6,662	5,437	12,567	11,043	-11.4%	8.6%	13.8%
TOTAL PASSENGERS	12,152	13,023	11,035	25,175	21,967	-6.7%	10.1%	14.6%
AIRCRAFT OPERATIONS								
(Landings and Takeoffs)								
Air Carrier	392	385	413	777	794	1.8%	-5.1%	-2.1%
General Aviation	4,559	4,515	6,377	9,074	11,788	1.0%	-28.5%	-23.0%
Military	137	100	163	237	289	37.0%	-16.0%	-18.0%
Total	5,088	5,000	6,953	10,088	12,871	1.8%	-26.8%	-21.6%

AIR TRAFFIC REPORT

	MONTH			YEAR TO DATE TOTALS		CHANGES		
	Feb-10	Jan-10	Feb-09	2010	2009	Feb-10 Jan-10	Feb-10 Feb-09	10 YTD 09 YTD
NUMBER OF DAILY SCHEDULED FLIGHTS								
USAirways Express - Piedmont	4	4	4			0.0%	0.0%	
USAirways Express - PSA	0	0	0					
ACA - United Express	0	0	0					
ASA - Delta Connection	3	3	2			0.0%	50.0%	
Allegheny	0	0	0					
Shuttle America	0	0	0					
Air Midwest	0	0	0					
Total	7	7	6			0.0%	16.7%	
NUMBER OF ACTUAL FLIGHTS								
USAirways Express - Piedmont	100	114	120	214	236	-12.3%	-16.7%	-9.3%
USAirways Express - PSA	0	0	0	-	-			
ACA - United Express	0	0	0	-	-			
ASA - Delta Connection	63	70	46	133	93	-10.0%	37.0%	43.0%
Allegheny	0	0	0	-	-			
Shuttle America	0	0	0	-	-			
Air Midwest	0	0	0	-	-			
Total	163	184	166	347	329	-11.4%	-1.8%	5.5%
NUMBER OF CANCELLED FLIGHTS								
USAirways Express - Piedmont	8	5	2	13	6	3	6	7
USAirways Express - PSA	0	0	0	-	-	0	0	0
ACA - United Express	0	0	0	-	-	0	0	0
ASA - Delta Connection	8	7	0	15	1	1	8	14
Allegheny	0	0	0	-	-	0	0	0
Shuttle America	0	0	0	-	-	0	0	0
Air Midwest	0	0	0	-	-	0	0	0
Total	16	12	2	28	7	4	14	21

LYNCHBURG REGIONAL AIRPORT AIR TRAFFIC REPORT FOR FEBRUARY 2010

IR TRAFFIC REPORT

evenue Passengers Only	MONTH Feb-10	MONTH Jan-10	MONTH Feb-09	YEAR TO DATE TOTALS 2010	YEAR TO DATE TOTALS 2009	PERCENTAGE CHANGES Feb-10 Jan-10	PERCENTAGE CHANGES Feb-10 Feb-09	PERCENTAGE CHANGES 10 YTD 09 YTD	PERCENT OF AIRPORT TOTAL Feb-10	PERCENT OF AIRPORT TOTAL Jan-10	PERCENT OF AIRPORT TOTAL Feb-09
NPLANED PASSENGERS											
USAirways Express - Piedmont	3,543	3,548	3,771	7,091	7,397	-0.1%	-6.0%	-4.1%	56.7%	55.8%	67.4%
USAirways Express - PSA	0	0	0						0.0%	0.0%	0.0%
ACA - United Express	0	0	0						0.0%	0.0%	0.0%
ASA - Delta Connection	2,704	2,813	1,827	5,517	3,527	-3.9%	48.0%	56.4%	43.3%	44.2%	32.6%
Allegheny	0	0	0						0.0%	0.0%	0.0%
Shuttle America	0	0	0						0.0%	0.0%	0.0%
Air Midwest	0	0	0						0.0%	0.0%	0.0%
Charter	0	0	0						0.0%	0.0%	0.0%
Total	6,247	6,361	5,598	12,608	10,924	-1.8%	11.6%	15.4%	100.0%	100.0%	100.0%
EPLANED PASSENGERS											
USAirways Express - Piedmont	3,390	3,892	3,625	7,282	7,411	-12.9%	-6.5%	-1.7%	57.4%	58.4%	66.7%
USAirways Express - PSA	0	0	0						0.0%	0.0%	0.0%
ACA - United Express	0	0	0						0.0%	0.0%	0.0%
ASA - Delta Connection	2,515	2,770	1,812	5,285	3,632	-9.2%	38.8%	45.5%	42.6%	41.6%	33.3%
Allegheny	0	0	0						0.0%	0.0%	0.0%
Shuttle America	0	0	0						0.0%	0.0%	0.0%
Air Midwest	0	0	0						0.0%	0.0%	0.0%
Colgan Air	0	0	0								
Charter	0	0	0						0.0%	0.0%	0.0%
Total	5,905	6,662	5,437	12,567	11,043	-11.4%	8.6%	13.8%	100.0%	100.0%	100.0%
OTAL PASSENGERS											
USAirways Express - Piedmont	6,933	7,440	7,396	14,373	14,808	-6.8%	-6.3%	-2.9%	57.1%	57.1%	67.0%
USAirways Express - PSA	-	-	-						0.0%	0.0%	0.0%
ACA - United Express	-	-	-						0.0%	0.0%	0.0%
ASA - Delta Connection	5,219	5,583	3,639	10,802	7,159	-6.5%	43.4%	50.9%	42.9%	42.9%	33.0%
Allegheny	-	-	-						0.0%	0.0%	0.0%
Shuttle America	-	-	-						0.0%	0.0%	0.0%
Air Midwest	-	-	-						0.0%	0.0%	0.0%
Colgan Air	0	-	-								
Charter	-	-	-						0.0%	0.0%	0.0%
Total	12,152	13,023	11,035	25,175	21,967	-6.7%	10.1%	14.6%	100.0%	100.0%	100.0%

IR TRAFFIC REPORT
ON-REVENUE PASSENGERS ONLY

	MONTH Feb-10	MONTH Jan-10	MONTH Feb-09	YEAR TO DATE TOTALS 2010	YEAR TO DATE TOTALS 2009	PERCENTAGE CHANGES Feb-10 Jan-10	PERCENTAGE CHANGES Feb-10 Feb-09	PERCENTAGE CHANGES 10 YTD 09 YTD	PERCENT OF AIRPORT TOTAL Feb-10	PERCENT OF AIRPORT TOTAL Jan-10	PERCENT OF AIRPORT TOTAL Feb-09
NPLANED NON-REVENUE PASSENGERS											
USAirways Express - Piedmont	91	92	101	183	205	-1.1%	-9.9%	-10.7%	67.4%	64.3%	65.2%
USAirways Express - PSA	0	0	0						0.0%	0.0%	0.0%
ACA - United Express	0	0	0						0.0%	0.0%	0.0%
ASA - Delta Connection	44	51	54	95	112	-13.7%	-18.5%	-15.2%	32.6%	35.7%	34.8%
Allegheny	0	0	0						0.0%	0.0%	0.0%
Shuttle America	0	0	0						0.0%	0.0%	0.0%
Air Midwest	0	0	0								
Total	135	143	155	278	317	-5.6%	-12.9%	-12.3%	100.0%	100.0%	100.0%

LYNCHBURG REGIONAL AIRPORT AIR TRAFFIC REPORT FOR FEBRUARY 2010

IR TRAFFIC REPORT
ON-REVENUE PASSENGERS ONLY

	MONTH			YEAR TO DATE TOTALS		PERCENTAGE CHANGES			PERCENT OF AIRPORT TOTAL		
						Feb-10	Feb-10	10 YTD			
	Feb-10	Jan-10	Feb-09	2010	2009	Jan-10	Feb-09	09 YTD	Feb-10	Jan-10	Feb-09
EPLANED NON-REVENUE PASSENGERS											
USAirways Express - Piedmont	104	95	97	199	191	9.5%	7.2%	4.2%	71.7%	68.8%	61.8%
USAirways Express - PSA	0	0	0						0.0%	0.0%	0.0%
ACA - United Express	0	0	0						0.0%	0.0%	0.0%
ASA - Delta Connection	41	43	60	84	99	-4.7%	-31.7%	-15.2%	28.3%	31.2%	38.2%
Allegheny	0	0	0						0.0%	0.0%	0.0%
Shuttle America	0	0	0						0.0%	0.0%	0.0%
Air Midwest	0	0	0						0.0%	0.0%	0.0%
Total	145	138	157	283	290	5.1%	-7.6%	-2.4%	100.0%	100.0%	100.0%
OTAL NON-REVENUE PASSENGERS											
USAirways Express - Piedmont	195	187	198	382	396	4.3%	-1.5%	-3.5%	69.6%	66.5%	63.5%
USAirways Express - PSA	-	-	-						0.0%	0.0%	0.0%
ACA - United Express	-	-	-						0.0%	0.0%	0.0%
ASA - Delta Connection	85	94	114	179	211	-9.6%	-25.4%	-15.2%	30.4%	33.5%	36.5%
Allegheny	-	-	-						0.0%	0.0%	0.0%
Shuttle America	-	-	-						0.0%	0.0%	0.0%
Air Midwest	-	-	-						0.0%	0.0%	0.0%
Total	280	281	312	561	607	-0.4%	-10.3%	-7.6%	100.0%	100.0%	100.0%

Lynchburg Regional Airport

Application for Airport Business License

SECTION I – General Information

1. Applicant's Name Lloyd ALLAN Belcher
5. Company Name Centra Health, Inc.
6. Address 1901 Tate Springs Rd. City/State/Zip Lynchburg, VA 24501
7. Telephone 434. 200. 6883 E-mail Address 434. 200. 3271

SECTION II – Other Information

1. Type of Aeronautical Activity

   ☐ SASO (Specify) ______

2. Proposed Date of Commencement May 1, 2010
3. Proposed Location In current negotiations
4. Sub-Lessee of What Airport Tenant In current negotiations

SECTION III – Required Documentation Enclosed (Check each box)

☐ Letter or proposal providing detailed description of the nature of the proposed aeronautical activity, professional qualifications of management personnel, business plan, previous experience and other relevant information

☐ Copy of sub-lease agreement, or proposed sub-lease agreement, with current airport tenant

☐ Proof of required insurance as specified in Chapter III of Minimum Standards

Lynchburg Regional Airport

- A current financial statement prepared in accordance with generally accepted accounting practices.
- Written listing of assets owned, leased or being purchased that will be used in the business on the airport (copies of sub-leases or purchase contracts may be attached)
- A current credit report covering all areas of business in the past five (5) years
- Listing of all corporate or business entities with which principal(s) have been involved in the last year, including legal name.

SECTION IV – Certification

Signature of Applicant Lloyd Allan Belcher

Name (Printed) Lloyd Allan Belcher Title Director

Date 3/15/2010

Mail Completed Application To:

Airport Manager
Lynchburg Regional Airport
4303 Wards Road, Suite 100
Lynchburg, VA 24502

Tel: 434-582-1150
Fax: 434-239-9027

Recommended for Approval by Airport Commission: ______________________
Date

Airport Business License Issued by Airport Manager: ______________________
Date

APPENDIX B: Applications for Lease Agreements, Airport Business Licenses and Airport Permits.

Lynchburg Regional Airport

Application for Airport Lease Agreement

SECTION I – General Information

1. Applicant's Name Lloyd Allan Belcher
2. Company Name Centra Health, Inc
3. Address 1901 Tate Springs Road City/State/Zip Lynchburg, VA 24501
4. Telephone 434. 200. 6883 E-mail Address 434. 200. 3271

SECTION II – Other Information

1. Type of Aeronautical Activity

   ☐ FBO ☐ SASO (Specify) ______ ☐ Other (Specify) ______

2. Proposed Date of Commencement May 1, 2010
3. Proposed Location In current negotiations

SECTION III – Required Documentation Enclosed (Check each box)

☐ Letter or proposal providing detailed description of the nature of the proposed aeronautical activity, documentation showing proposed service(s) will meet the airport's minimum standards, professional qualifications of management personnel, business plan, previous experience and other relevant information

Lynchburg Regional Airport

- Description, preliminary drawings and cost estimates of any proposed capital improvements, if applicable, including compliance with FAA-approved Airport Layout Plan (ALP)
- A current financial statement prepared in accordance with generally accepted accounting practices
- Written listing of assets owned, leased or being purchased that will be used in the business on the airport (copies of sub-leases or purchase contracts may be attached)
- A current credit report covering all areas of business in the past five (5) years
- Listing of all corporate or business entities with which principal(s) have been involved in the last year, including legal name

SECTION IV – Certification

Signature of Applicant Lloyd Allen Belcher

Name (Printed) Lloyd Allan Belcher Title Director

Date 3/15/2010

Mail Completed Application
To:

Airport Manager
Lynchburg Regional Airport
4303 Wards Road, Suite 100
Lynchburg, VA 24502

Tel: 434-582-1150
Fax: 434-239-9027

Recommended for Approval by Airport Commission: ______________________
Date

Lease Agreement Approved by City Council: ______________________
Date

Nancy Campbell/Finance/CentraNotes

03/16/2010 09:57 AM

To Allan Belcher/CentraNotes@CentraNotes

cc

bcc

Subject application info

Allan,
The information you requested related to the airport applications is below
1) financial statements (attached)
2) list of companies (attached)
3) bond rating
   S&P rating is A
   Moody's rating is A2

Centra Health Income Statement FY 2009.xls List of Centra companies.xls

Let me know if you need anything else. Thanks.

Nancy Campbell, MBA
Director, Business Development & Analysis
Centra Health
(434) 200-4703

CENTRA HEALTH, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENT OF OPERATIONS
For the Twelve Months Ending December 31, 2009

	YEAR TO DATE ACTUAL	YEAR TO DATE BUDGET	OVER (UNDER) BUDGET AMOUNT	OVER (UNDER) BUDGET %	PRIOR YEAR ACTUAL	PRIOR YEAR % CHANGE
GROSS PATIENT SERVICE REVENUES						
INPATIENT REVENUE	671,891,268	701,436,828	(29,545,560)	(4.2%)	632,773,214	6.2%
OUTPATIENT REVENUE	457,988,936	443,505,204	14,483,732	3.3%	393,280,626	16.5%
TOTAL GROSS PATIENT SERVICE REVENUES	1,129,880,204	1,144,942,032	(15,061,828)	(1.3%)	1,026,053,840	10.1%
DEDUCTIONS FROM PATIENT SERVICE REVENUES						
CHARITY SERVICES	38,922,703	48,743,648	(9,820,945)	(20.1%)	39,788,268	(2.2%)
CONTRACTUAL ADJUSTMENTS	516,111,384	529,780,575	(13,669,191)	(2.6%)	452,783,001	14.0%
POLICY AND ADMINISTRATIVE ADJUSTMENTS	5,056,798	5,110,039	(53,241)	(1.0%)	5,280,374	(4.2%)
TOTAL DEDUCTIONS FROM PATIENT SERVICE REVENUES	560,090,885	583,634,262	(23,543,377)	(4.0%)	497,851,643	12.5%
NET PATIENT SERVICE REVENUES	569,789,319	561,307,770	8,481,549	1.5%	528,202,197	7.9%
OTHER OPERATING REVENUES						
CAFETERIA SALES	2,526,357	2,539,318	(12,961)	(0.5%)	2,429,536	4.0%
RIVERMONT SCHOOLS	11,630,920	12,666,007	(1,035,087)	(8.2%)	10,684,914	8.9%
OUTSIDE LAB REVENUE	8,256,931	9,207,991	(951,060)	(10.3%)	9,314,177	(11.4%)
TRANSFERS FROM SUPPORTING ORGANIZATION	0	(4)	4	(100.0%)	1	(100.0%)
INVESTMENT INCOME ON CERTAIN BOND FUNDS	61	26,000	(25,939)	(99.8%)	11,564	(99.5%)
PROGRAM FUNDING	423,490	429,948	(6,458)	(1.5%)	425,395	(0.4%)
OTHER SOURCES	13,846,713	10,728,208	3,118,505	29.1%	12,076,905	14.7%
NET ASSETS RELEASED FROM RESTRICTIONS	1,598,782	1,679,833	(81,051)	(4.8%)	2,548,808	(37.3%)
FOUNDATION UNRESTRICTED REVENUE AND SUPPORT	615,147	737,705	(122,558)	(16.6%)	757,146	(18.8%)
TOTAL OTHER OPERATING REVENUES	38,898,401	38,015,006	883,395	2.3%	38,248,446	1.7%
TOTAL OPERATING REVENUES	608,687,720	599,322,776	9,364,944	1.6%	566,450,643	7.5%
OPERATING EXPENSES						
SALARIES	252,995,516	258,332,132	(5,336,616)	(2.1%)	239,208,579	5.8%
EMPLOYEE BENEFITS	60,947,370	57,602,164	3,345,206	5.8%	52,706,962	15.6%
PROFESSIONAL SERVICES	19,887,535	16,545,294	3,342,241	20.2%	18,654,521	6.6%
MEDICAL SUPPLIES	48,950,484	50,234,493	(1,284,009)	(2.6%)	48,665,535	0.6%
DRUGS	21,773,559	21,624,437	149,122	0.7%	20,330,138	7.1%
NONMEDICAL SUPPLIES	8,843,205	9,954,502	(1,111,297)	(11.2%)	9,421,796	(6.1%)
FOOD	5,001,930	5,243,450	(241,520)	(4.6%)	5,220,805	(4.2%)
UTILITIES	9,280,112	9,696,106	(415,994)	(4.3%)	8,812,055	5.3%
EQUIPMENT AND OTHER RENTALS	6,446,511	6,699,311	(252,800)	(3.8%)	5,886,224	9.5%
REPAIRS AND MAINTENANCE	7,567,024	7,581,246	(14,222)	(0.2%)	7,203,268	5.0%
INSURANCE	5,403,422	4,274,394	1,129,028	26.4%	4,973,291	8.6%
OTHER PURCHASED SERVICES	55,456,084	51,055,796	4,400,288	8.6%	53,455,587	3.7%
OTHER	5,590,192	4,438,506	1,151,686	25.9%	4,576,290	22.2%
PROVISION FOR BAD DEBTS	36,659,275	37,506,916	(847,641)	(2.3%)	34,979,210	4.8%
GRANTS FOR CENTRA AND COMMUNITY PROGRAMS	351,118	494,583	(143,465)	(29.0%)	470,455	(25.4%)
DEPRECIATION AND AMORTIZATION	38,615,497	37,803,656	811,841	2.1%	35,424,944	9.0%
INTEREST	7,231,976	8,456,561	(1,224,585)	(14.5%)	11,255,709	(35.7%)
TOTAL EXPENSES	591,000,810	587,543,547	3,457,263	0.6%	561,245,369	5.3%
OPERATING INCOME (LOSS)	17,686,910	11,779,229	5,907,681	50.2%	5,205,274	239.8%
NONOPERATING GAINS (LOSSES)						
LOSS ON EXTINGUISHMENT OF DEBT	0	0	0	0.0%	(1,066,538)	(100.0%)
OTHER INVESTMENT INCOME	4,763,626	3,112,074	1,651,552	53.1%	(69,631)	(6941.2%)
MINORITY INTEREST	(65,185)	60	(65,245)	(108741.7%)	145,531	(144.8%)
INCOME (LOSS) FROM SUBSIDIARIES	0	(1)	1	(100.0%)	4	(100.0%)
CHANGE IN FAIR VALUE OF INTEREST RATE SWAP AGREEMENTS	16,263,554	0	16,263,554	0.0%	(21,636,705)	(175.2%)
CONTRIBUTIONS	14,032	12,500	1,532	12.3%	14,659	(4.3%)
INVESTMENT INCOME FROM CAPITAL ACQUISITION INVESTMENTS	(11,754,597)	15,027,000	(26,781,597)	(178.2%)	1,427,334	(923.5%)
TOTAL NET NONOPERATING GAINS (LOSSES)	9,221,430	18,151,633	(8,930,203)	(49.2%)	(21,185,346)	(143.5%)
EXCESS OF UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT OVER EXPENSES	26,908,340	29,930,862	(3,022,522)	(10.1%)	(15,980,072)	(268.4%)
UNREALIZED GAIN (LOSS) ON INVESTMENTS	34,158,835	100,000	34,058,835	34058.8%	(43,836,744)	(177.9%)
NET ASSETS RELEASED FROM RESTRICTIONS FOR CAPITAL ACQUISITIONS	3,551,184	873,455	2,677,729	306.6%	1,361,483	160.8%
CHANGE IN PENSION REPORTING	49,379,859	0	49,379,859	0.0%	(54,760,327)	(190.2%)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	113,998,218	30,904,317	83,093,901	268.9%	(113,215,660)	(200.7%)
INCREASE (DECREASE) IN RESTRICTED NET ASSETS	3,780,743	(319,702)	4,100,445	(1282.6%)	(15,626,639)	(124.2%)
INCREASE (DECREASE) IN NET ASSETS	117,778,961	30,584,615	87,194,346	285.1%	(128,842,299)	(191.4%)

Centra Health, Inc.
List of Companies

Centra Health
General Business Concerns
Continuing Care Retirement Community
Lynchburg Family Practice Residency Program
Centra Health Foundation
Centra Health Professional Services
Southside Community Hospital
Center for Restorative Care and Rehabilitation
Centra Health Cardiovascular Services
Centra Health Emergency Services
Southside Professional Services
Southside Emergency Services
Centra Health Indemnity Company

Lynchburg Regional Airport

Date

Lynchburg Regional Airport

Application
for
Airport Business License

SECTION I – General Information

1. Applicant's Name PHI, Inc.
5. Company Name PHI, Inc.
6. Address 2001 SE Evangeline City/State/Zip Lafayette, La.
7. Telephone 337-235-2452 E-mail Address CLACELLE@phihelco.com

SECTION II – Other Information

1. Type of Aeronautical Activity

   ¡ SASO (Specify) Air Medical Part 135

2. Proposed Date of Commencement May 1, 2010

3. Proposed Location

   ____

4. Sub-Lessee of What Airport Tenant ______________

SECTION III – Required Documentation Enclosed (Check each box)

¡ Letter or proposal providing detailed description of the nature of the proposed aeronautical activity, professional qualifications of management personnel, business plan, previous experience and other relevant information

¡ Copy of sub-lease agreement, or proposed sub-lease agreement, with current airport tenant

N/A

Lynchburg Regional Airport

i Proof of required insurance as specified in Chapter III of Minimum Standards

i A current financial statement prepared in accordance with generally accepted accounting practices.

i Written listing of assets owned, leased or being purchased that will be used in the business on the airport (copies of sub-leases or purchase contracts may be attached)
(1) EC135 P2+ owned N390PH

i A current credit report covering all areas of business in the past five (5) years

i Listing of all corporate or business entities with which principal(s) have been involved in the last year, including legal name. PHI, Inc.

SECTION IV – Certification

Signature of Applicant [signature]

Name (Printed) Chuck La Celle Title DIR. Traditional Programs

Date 3/11/10

Mail Completed Application To:

Airport Manager
Lynchburg Regional Airport
4303 Wards Road, Suite 100
Lynchburg, VA 24502

Tel: 434-582-1150
Fax: 434-239-9027

Recommended for Approval by Airport Commission: ____________
Date

Airport Business License Issued by Airport Manager: ____________
Date

Decide with Confidence

Comprehensive Report

To save report(s) to your PC, click here for instructions.

Print this Report

ATTN: **finance**

Report Printed: MAR 11 2010

Overview

BUSINESS SUMMARY

PHI, INC.
2001 Se Evangeline Thruway
Lafayette, LA 70508

D&B D-U-N-S Number: 00-694-7873

This is a **headquarters** location.
Branch(es) or division(s) exist.

Web site:	www.phihelico.com
Telephone:	337 235-2452
Chief executive:	AL A GONSOULIN, CHB-CEO
Stock symbol:	PHII
Year started:	1949
Employs:	2,382 (13 here)
Financial statement date:	DEC 31 2009
Sales F:	$487,511,000
Net worth F:	$465,448,000
History:	CLEAR
Financial condition:	FAIR
SIC:	4512

Now Included with this Report NEW!

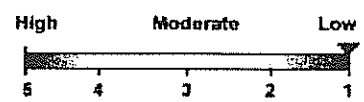
D&B's Credit Limit Recommendation
How much credit should you extend?
Learn More · View Now

Payment Trends Profile
Payment trends and industry benchmarks
Jump to Payment Trends

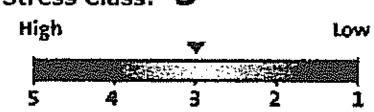
Enhanced Financial Stress Score
Provides a 26% predictive boost in performance over original score
More Info

Credit Score Class: 1

Low risk of severe payment delinquency over next 12 months

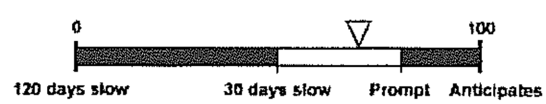


Financial Stress Class: 3



D&B PAYDEX®: 72

When weighted by dollar amount, payments to suppliers average 12 days beyond terms.



D&B Rating:	**5A3**
Financial strength:	5A is **$50 million and**

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2009

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ____________ to ______________

Commission file number 0-9827

PHI, INC.

(Exact name of registrant as specified in its charter)

Louisiana	**72-0395707**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
2001 SE Evangeline Thruway	
Lafayette, Louisiana	**70508**
(Address of principal office)	(Zip Code)

(Registrant's telephone number including area code: **(337) 235-2452**

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Voting Common Stock	The NASDAQ Global Market
Non-Voting Common Stock	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes: ☐ No: ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes: ☐ No: ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: ☒ No: ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: ☐ No: ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, non-accelerated filer, or smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act. Large accelerated filer: ☐ Accelerated filer: ☒ Non-accelerated filer: ☐ Smaller reporting company: ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes: ☐ No: ☒

The aggregate market value of the voting and non-voting common stock held by non-affiliates of the registrant as of June 30, 2009 was $230,583,471 based upon the last sales prices of the voting and non-voting common stock on June 30, 2009, as reported on the NASDAQ Global Market.

The number of shares outstanding of each of the registrant's classes of common stock, as of February 26, 2010 was:
Voting Common Stock.............................. 2,852,616 shares. Non-Voting Common Stock......................12,458,992 shares.

Documents Incorporated by Reference

Portions of the registrant's definitive Information Statement for the 2010 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

PART I

Forward-Looking Statements

All statements other than statements of historical fact contained in this Form 10-K and other periodic reports filed by PHI, Inc. (the "Company" or "PHI") under the Securities Exchange Act of 1934 and other written or oral statements made by it or on its behalf, are forward-looking statements. When used herein, the words "anticipates", "expects", "believes", "goals", "intends", "plans", "projects" and similar words and expressions are intended to identify forward-looking statements. Forward-looking statements are based on a number of assumptions about future events and are subject to significant risks, uncertainties, and other factors that may cause the Company's actual results to differ materially from the expectations, beliefs, and estimates expressed or implied in such forward-looking statements. Although the Company believes that the assumptions underlying the forward-looking statements are reasonable, no assurance can be given that such assumptions will prove correct or even approximately correct. Factors that could cause the Company's results to differ materially from the expectations expressed in such forward-looking statements include but are not limited to the following: unexpected variances in flight hours, the effect on demand for our services caused by volatility of oil and gas prices and the level of exploration and production activity in the Gulf of Mexico, the effect on our operating costs of volatile fuel prices, the availability of aircraft lease financing or capital required to acquire aircraft, environmental risks, hurricanes and other adverse weather conditions, the activities of our competitors, changes in government regulation, unionization, operating hazards, risks related to operating in foreign countries, the ability to obtain adequate insurance at an acceptable cost and the ability of the Company to develop and implement successful business strategies. For a more detailed description of risks, see the "Risk Factors" section in Item 1A below. All forward-looking statements in this document are expressly qualified in their entirety by the cautionary statements in this paragraph and the Risk Factors section below. PHI undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

ITEM 1. BUSINESS

General

Since our incorporation in 1949, our primary business has been the safe and reliable transportation of personnel and, to a lesser extent, parts and equipment, to, from, and among offshore platforms for customers engaged in the oil and gas exploration, development, and production industry, principally in the Gulf of Mexico. We are a leading provider of helicopter transportation services in the Gulf of Mexico. We also provide helicopter services to the oil and gas industry internationally, and to non-oil and gas customers such as health care providers and U.S. governmental agencies such as the National Science Foundation. We also provide air medical transportation for hospitals and emergency service agencies where we operate as an independent provider of medical services. We also provide helicopter maintenance and repair services to certain customers. At December 31, 2009, we owned or operated approximately 255 aircraft domestically and internationally.

Description of Operations

We operate in three business segments: Oil and Gas, Air Medical, and Technical Services. For financial information regarding our operating segments and the geographic areas in which they operate, see Note 10 of the Notes to Consolidated Financial Statements included elsewhere in this Form 10-K.

Oil and Gas. Our Oil and Gas segment, headquartered in Lafayette, Louisiana, provides helicopter services primarily for the major oil and gas production companies transporting personnel and/or equipment to offshore platforms in the Gulf of Mexico and the Democratic Republic of Congo. We currently operate 164 aircraft in this segment.

Oil and gas exploration and production companies and other offshore oil service companies use our services primarily for routine transportation of personnel and equipment, to transport personnel during medical and safety emergencies, and to evacuate personnel during the threat of hurricanes and other adverse weather conditions. Most of our customers have entered into contracts with us, although some hire us on an "ad hoc" or "spot" basis.

Most of our Oil and Gas aircraft are available for hire by any customer, but some are dedicated to individual customers. Our helicopters have flight ranges up to 495 miles with a 30-minute fuel reserve and thus are capable of servicing many of the deepwater oil and gas operations from 50 to 200 miles offshore. (See Item 2 – Properties, for specific information by aircraft model.)

Operating revenue from the Oil and Gas segment is derived mainly from contracts that include a fixed monthly rate for a particular model of aircraft, plus a variable rate for flight time. Operating costs for the Oil and Gas operations are primarily aircraft operation costs, including costs for pilots and maintenance personnel.

Operating revenues from the Oil and Gas segment accounted for 65%, 64%, and 64% of consolidated operating revenues during the years ended December 31, 2009, 2008, and 2007, respectively.

Air Medical. We provide air medical transportation services for hospitals and emergency service agencies in 17 states using approximately 85 aircraft at 65 separate locations. Our Air Medical segment operates primarily under the independent provider model and, to a lesser extent, under the hospital-based model. Under the independent provider model, we have no contracts and no fixed revenue stream, and compete for transport referrals on a daily basis with other independent operators in the area. Under the hospital-based model, we contract directly with the hospital to provide their transportation services, with the contracts typically awarded on a competitive bid basis. Our Air Medical operations are headquartered in Phoenix, Arizona. The Air Medical segment's operating revenues accounted for 33%, 34%, and 34% of consolidated operating revenues for the years ended December 31, 2009, 2008, and 2007, respectively.

As an independent provider, we bill for our services on the basis of a flat rate plus a variable charge per loaded mile, regardless of aircraft model. Revenues are recorded net of contractual allowances under agreements with third party payors and estimated uncompensated care when the services are provided. Contractual allowances and uncompensated care are estimated based on historical collection experience by payor category. The main payor categories are Medicaid, Medicare, Insurance, and Self-Pay. Payor mix and changes in reimbursement rates are the factors most subject to sensitivity and variability in calculating our allowances. We compute a historical payment analysis of accounts, by category. The allowance percentages calculated are applied to the payor categories, and the necessary adjustments are made to the revenue allowance. The allowance for contractual discounts was $32.1 million, $36.1 million, and $31.9 million as of December 31, 2009, 2008, and 2007, respectively. The allowance for uncompensated care was $28.1 million, $20.8 million, and $19.1 million as of December 31, 2009, 2008, and 2007, respectively.

Provisions for contractual discounts and estimated uncompensated care are as follows:

	Revenue Year Ended December 31,			Accounts Receivable Year Ended December 31,		
	2009	2008	2007	2009	2008	2007
Gross billings	100%	100%	100%	100%	100%	100%
Provision for contractual discounts [1]	52%	47%	44%	34%	35%	33%
Provision for uncompensated care	11%	11%	12%	30%	20%	20%

1) The increase in the provision for contractual discounts is related to rate increases in gross billings, as a higher percentage of the rate increase portion of the gross billing is not collected.

Amounts attributable to Medicaid, Medicare, Insurance, and Self Pay as a percentage of net Air Medical revenues are as follows:

	Year Ended December 31,		
	2009	2008	2007
Medicaid	12%	11%	10%
Medicare	18%	18%	16%
Insurance	68%	67%	71%
Self Pay	2%	4%	3%

We also have a limited number of contracts with hospitals under which we receive a fixed monthly rate for aircraft availability and an hourly rate for flight time. Those contracts generated approximately 8%, 12%, and 8% of the segment's revenues for 2009, 2008, and 2007, respectively.

Technical Services. The Technical Services segment provides helicopter repair and overhaul services for flight operations customers that own their aircraft. Costs associated with these services are primarily labor, and customers are generally billed at a percentage above cost. We also operate six aircraft for the National Science Foundation in Antarctica under this segment.

Operating revenues from the Technical Services segment accounted for 2% of consolidated operating revenues for the years ended December 31, 2009, 2008, and 2007.

Seasonal Aspects

Seasonality affects our operations in three principal ways: weather conditions are generally poorer in December, January, and February; tropical storms and hurricanes are prevalent in the Gulf of Mexico in late summer and early fall; and reduced daylight hours restrict our operations in winter, which result in reduced flight hours. When a tropical storm or hurricane is about to enter or begins developing in the Gulf of Mexico, flight activity may temporarily increase because of evacuations of offshore workers, but during the storms, we are unable to operate in the area of the storm and can incur significant expense in moving our aircraft to safer locations. For a more detailed discussion of these events, see the "Adverse Weather Conditions" paragraph in the "Risk Factors" section of Item 1A. Our operating results vary from quarter to quarter, depending on seasonal factors and other factors outside of our control. As a result, full year results are not likely to be a direct multiple of any particular quarter or combination of quarters.

Inventories

We carry a significant inventory of aircraft parts to support the maintenance and repair of our helicopters. Many of these inventory items are parts that have been removed from aircraft, refurbished according to manufacturers and Federal Aviation Administration ("FAA") specifications, and returned to inventory. The cost to refurbish these parts is expensed as incurred. We use systematic procedures to estimate the value of these used parts, which include consideration of their condition and continuing utility. The carrying values of inventory reported in our consolidated financial statements are affected by these estimates and may change from time to time if our estimated values change. See "Notes to Consolidated Financial Statements, Summary of Significant Accounting Policies, Inventories of Spare Parts."

Customers

Our principal customers are major integrated energy companies and independent exploration and production companies. We also serve oil and gas service companies, hospitals and medical programs under the independent provider model, government agencies, and other aircraft owners and operators. Our largest customer is in our Oil and Gas segment and accounted for 15%, 13%, and 12% of operating revenues for the years ended December 31, 2009, 2008, and 2007, respectively. Also, another customer in our Oil and Gas segment accounted for 13%, 14%, and 15% of operating revenues for the years ended December 31, 2009, 2008, and 2007, respectively. We have entered into contracts with most of our customers for terms of at least one year, although most contracts include provisions permitting earlier termination.

Competition

Our business is highly competitive in each of our markets, and many of our contracts are awarded after competitive bidding. Factors that impact competition include safety, reliability, price, availability of appropriate aircraft and quality of service. Some of our competitors recently have undertaken expansion and/or upgrades of their fleets.

We are a leading operator of helicopters in the Gulf of Mexico. There are two major and several small competitors operating in the Gulf of Mexico market. Although most oil companies traditionally contract for most specialty services associated with offshore operations, including helicopter services, certain of our customers and potential customers in the oil industry operate their own helicopter fleets, or have the capability to do so if they so elect.

In the air medical market, we compete against national and regional firms, and there is usually more than one competitor in each local market. In addition, we compete against hospitals that operate their own helicopters and, in some cases, against ground ambulances as well.

Employees

As of December 31, 2009, we employed approximately 2,251 full-time employees and 48 part-time employees, including approximately 706 pilots, 715 aircraft maintenance personnel, and 404 medical support staff.

As previously reported, the Company is involved in Federal Court litigation in the Western District of Louisiana with the Office and Professional Employees International Union ("OPEIU"), the union representing domestic pilots, over claims of bad faith bargaining and issues relating to the return to work of striking pilots. The pilots commenced a strike in September 2006, and a court-approved return to work process began in January 2007 for those pilots who had not already returned to work or left the Company's employment, and this was essentially completed in April 2007. Pilots continue to work under the terms and conditions of employment set forth in the final implementation proposals made by the Company at the end of collective bargaining negotiations in August 2006. A trial date on strike-related matters has been postponed from June 29, 2009 until July 6, 2010. Management does not expect the outcome of this litigation to have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Environmental Matters

We are subject to federal, state and local environmental laws and regulations that impose limitations on the discharge of pollutants into the environment and establish standards for the treatment, storage, recycling, and disposal of toxic and hazardous wastes. Operating and maintaining helicopters requires that we use, store, and dispose of materials that are subject to federal and state environmental regulation. We periodically conduct environmental site surveys at our facilities, and determine whether there is a need for environmental remediation based on these surveys. See "Notes to Consolidated Financial Statements, Footnote 9, Commitments and Contingencies, Environmental Matters."

Availability of SEC filings and other information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to any of these reports are available free of charge through our web site: www.phihelico.com. These reports are available as soon as reasonably practicable after we file them with the Securities and Exchange Commission ("SEC"). You may also read and copy any of the materials that we file with the SEC at the SEC's Public Reference Room at 100 F. Street, N.E., Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's website address is www.sec.gov.

ITEM 1A. Risk Factors

All phases of our operations are subject to significant uncertainties, risks, and other influences. Known material risks and other important factors that could cause our actual results to differ materially from anticipated results or other expectations are discussed below:

RISKS INHERENT IN OUR BUSINESS

The failure to maintain our safety record would seriously harm our ability to attract new customers and maintain our existing customers.

A favorable safety record is one of the primary factors a customer reviews in selecting an aviation provider. If we fail to maintain our safety and reliability record, our ability to attract new customers and maintain our current customers will be materially adversely affected.

Year Ended December 31, 2009 compared with Year Ended December 31, 2008

Combined Operations

Operating Revenues – Operating revenues for 2009 were $487.2 million compared to $509.5 million for 2008, a decrease of $22.3 million, or 4%. Operating revenues decreased in the Oil and Gas segment by $7.9 million primarily due to a decrease in medium aircraft revenues related primarily to a decrease in flight hour activity on the continental shelf, completion of a foreign contract in 2008, and decreases in revenue related to fuel charges. In addition, there was a decrease in medium aircraft revenue due to a voluntary grounding of medium aircraft in the first quarter of 2009. These amounts were offset in part by an increase in heavy aircraft revenue due to deepwater activity in the Gulf of Mexico and an increase in light aircraft revenue primarily related to one customer. Operating revenues in the Air Medical segment decreased $14.6 million in 2009 due to decreased patient transports in the independent provider programs. These items are discussed in more detail in the Segment Discussion below.

Other Income and Losses – Gains on equipment dispositions were $0.1 million for 2009 compared to $4.5 million for 2008. These amounts represent gains and losses on sales of aircraft and related parts inventory that no longer meet our strategic needs. Other income, which primarily represents interest income was $0.2 million for 2009, compared to $0.5 million for 2008.

Direct Expenses – Direct expense was $418.6 million for 2009 compared to $425.9 million for 2008, a decrease of $7.3 million, or 2%. Direct expense in the Air Medical segment decreased $13.3 million primarily due to the termination of the warranty program for certain aircraft and cost savings related to the closing of six bases, two in late 2008 and four in 2009. Oil and Gas segment direct expense increased $5.6 million primarily due to costs related to the aircraft additions in 2009 and late 2008. There was also a $0.3 million increase in the Technical Services segment direct expenses. These items are discussed in more detail in the Segment Discussion below.

Selling, General and Administrative Expenses – Selling, general and administrative expenses were $31.0 million for 2009 compared to $31.7 million for 2008, a decrease of $0.7 million, or 2%. This decrease resulted primarily from decreases in franchise taxes ($0.2 million), marketing and promotional expenses in the Air Medical segment ($0.3 million), outside services ($0.5 million), rent expense ($0.6 million) and other items, net ($0.2 million). These decreases were offset by increased legal expenses ($0.8 million) and employee costs ($0.3 million).

Interest Expense – Interest expense was $16.0 million for 2009, compared to $15.5 million for 2008 due to an increase in borrowings under our line of credit. The increase in borrowings under the line of credit was related to aircraft purchases.

Income Taxes – Income tax expense for 2009 was $8.9 million, compared to income tax expense of $15.1 million for 2008. The effective tax rate was 41% for 2009, compared to 39% for 2008.

Net Earnings – Our net earnings for 2009 were $13.0 million, compared to earnings of $23.5 million for 2008. Earnings before tax for 2009 were $21.8 million compared to earnings before tax of $38.6 million in 2008. Earnings per diluted share were $0.85 for 2009 as compared to earnings per diluted share of $1.54 for 2008. Included in earnings before tax for 2009 is a $4.9 million pre-tax credit related to termination of the warranty program for certain aircraft, and a $2.1 million pre-tax insurance provision related to the retention portion of our coverage, both included in direct expenses. Earnings for the year ended December 31, 2008 included a pre-tax gain on dispositions of assets, net, of $4.5 million, an aggregate pre-tax insurance charge of $2.1 million, a non-cash pre-tax charge for impairment of goodwill of $2.7 million, and a $1.6 million pre-tax credit due to termination of the warranty program for certain aircraft. The remaining decrease in earnings before tax is due to the decrease in Oil and Gas segment operating income caused by a decrease in medium aircraft revenues and earnings related to decreased activity on the continental shelf, a decrease due to the voluntary grounding of certain medium aircraft due to an accident January 4, 2009, and completion of a foreign contract in 2008.

Segment Discussion

Oil and Gas – Oil and Gas segment revenues for 2009 were $316.2 million compared to $324.1 million for 2008, a decrease of $7.9 million or 2%. The decrease was due to a decrease in medium aircraft flight hours and revenue due to decreased flight hour activity on the continental shelf. In addition, there was also a decrease in medium aircraft revenues and flight hours due to a voluntary grounding of certain medium aircraft in the first quarter of 2009 related to an accident on January 4, 2009. There were also decreases in revenue as a result of completion of a foreign contract in 2008, and decreases in revenue related to fuel charges. Total fuel cost is included in direct expense and reimbursement of a portion of these costs above a contracted per-gallon amount is included in revenue. The above amounts were offset in part by an increase in heavy aircraft revenue due to deepwater activity, and an increase in light aircraft activity related primarily to one customer. Segment flight hours were 111,527 for 2009 compared to 112,341 for 2008, a decrease of 814 hours.

The number of aircraft in the segment at December 31, 2009 was 164 compared to 153 aircraft at December 31, 2008. In 2009, we sold or disposed of three aircraft in the Oil and Gas segment, consisting of two light and one medium aircraft. We have added nine new aircraft to the Oil and Gas segment during 2009, consisting of one light, two medium, five heavy aircraft and one fixed-wing. Transfers between segments account for the remainder. For further information on our aircraft, see Item 2 – Properties contained in this Form 10-K.

Direct expense in our Oil and Gas segment was $263.8 million for the year ended December 31, 2009, compared to $258.2 million for the year ended December 31, 2008, an increase of $5.6 million. Employee compensation expense increased ($4.4 million) primarily due to compensation rate increases. We also experienced increases in aircraft depreciation ($1.5 million), aircraft rent ($7.0 million), aircraft insurance ($2.9 million), and aircraft parts usage ($2.2 million) primarily due to additional aircraft added to the fleet. Fuel expense decreased ($11.6 million) as the cost of fuel has declined compared to the prior year. Total fuel cost is included in direct expense and reimbursement of a portion of fuel costs above a contracted per-gallon amount is included in revenue. Other items decreased ($0.8 million), net.

Selling, general and administrative expenses were $1.1 million for the year ended December 31, 2009, compared to $1.3 million for the prior year.

Our Oil and Gas segment's operating profit was $51.3 million for the year ended December 31, 2009, compared to $64.7 million for the year ended December 31, 2008. The decrease of $13.4 million was due to the decrease in operating revenues of $7.9 million, and the increase in operating expenses of $5.6 million, for the reasons described above. Operating margins were 16% for the year ended December 31, 2009, compared to 20% for the year ended December 31, 2008. The decrease in operating margins was primarily due to the decrease in medium aircraft revenue primarily related to decreased flight hour activity on the continental shelf, a decrease related to the voluntary grounding of certain medium aircraft in the first quarter 2009, due to an accident on January 4, 2009, and decreased revenues due to completion of a foreign contract in 2008.

Air Medical – Air Medical segment revenues were $160.1 million for 2009 compared to $174.7 million for 2008, a decrease of $14.6 million. The decrease was primarily related to the decrease in patient transports, which totaled 19,798 for 2009 compared to 22,647 transports for 2008. Of the total decrease in transports of 2,849, approximately 977 transports were related to the closure of six bases. We believe the remaining decrease is primarily due to the current economic environment. Flight hours were 33,483 for the year ended December 31, 2009, compared to 36,732 for the year ended December 31, 2008.

The number of aircraft in the segment was 85 at December 31, 2009, compared to 90 at December 31, 2008. We added one new light aircraft, and we sold or disposed of one fixed-wing aircraft. Transfers between segments account for the remainder.

Direct expense in our Air Medical segment was $147.6 million for the year ended December 31, 2009, compared to $160.9 million for the year ended December 31, 2008. The $13.3 million decrease was due to decreases in employee compensation costs ($4.5 million) primarily due to a decrease in personnel related to independent provider programs that were closed in 2009 and late 2008, and also due to a reduction in support personnel. Fuel expense decreased ($3.4 million) due to a decrease in fuel costs, aircraft warranty costs decreased ($4.3 million) due to the credit in 2008 related to the termination of the warranty program for certain aircraft, and aircraft depreciation decreased ($0.4 million) due to the reduction of aircraft in the segment. Other items decreased ($0.7 million), net.

Selling, general and administrative expenses were $6.5 million for the year ended December 31, 2009, compared to $8.7 million for the year ended December 31, 2008. The decrease is due to decreases in rent expense ($0.9 million), promotional expenses ($0.3 million), employee compensation costs ($0.2 million), and other items, net ($0.8 million). Air Medical operations are headquartered in Phoenix, Arizona, where we maintain significant separate facilities and administrative staff dedicated to this segment. Those costs are charged directly to the Air Medical segment, resulting in higher selling, general and administrative expenses as compared to our other reportable segments.

Our Air Medical segment's operating profit was $6.0 million for the year ended December 31, 2009, compared to operating income of $5.1 million for the year ended December 31, 2008. Operating margins were 4% in the year ended December 31, 2009, compared to 3% in the year ended December 31, 2008. The margin increase is primarily due to decreases in expenses discussed above. Relative to our Air Medical segment in 2008 and 2009, we have seen some adverse impact in certain regions due to the current economic conditions.

Technical Services – Technical Services revenues were $10.9 million for the year ended December 31, 2009, compared to $10.6 million for the year ended December 31, 2008. Direct expense was $7.2 million for the year ended December 31, 2009, compared to $6.9 million for the year ended December 31, 2008.

The Technical Services segment had operating profit of $3.6 million for the year ended December 31, 2009, compared to $3.7 for the year ended December 31, 2008. Operating margins in the Technical Services segment were 33% for the year ended December 31, 2009, compared to 35% for the same period in 2008. Technical Services includes maintenance and repairs performed primarily for our existing customers that own their aircraft. These services are generally labor intensive with higher operating margins as compared to other segments.

Year Ended December 31, 2008 compared with Year Ended December 31, 2007

Combined Operations

Operating Revenues – Operating revenues for 2008 were $509.5 million compared to $446.4 million for 2007, an increase of $63.1 million, or 14%. Operating revenues increased in the Oil and Gas segment by $38.0 million primarily due to an increase in contracted medium and heavy aircraft, which primarily serve the Gulf of Mexico deepwater market and attract higher rates, increased flight hours, and also due to the adverse affect of the pilots' strike on 2007 operating revenues. Operating revenues in the Air Medical segment also increased $25.1 million in 2008 due to increased patient transports in the independent provider programs and additional contract awards in hospital-based programs. These items are discussed in more detail in the Segment Discussion below.

Other Income and Losses – Gain on equipment dispositions were $4.5 million for 2008 compared to $35.0 million for 2007. These amounts represent gains and losses on sales of aircraft and related parts inventory that no longer meet our strategic needs. Other income, which primarily represents interest income on unspent proceeds from our April 2006 stock offering, was $0.5 million for 2008, compared to $5.1 million for 2007. This decrease resulted from a decrease in short-term investments as a substantial portion of these proceeds had been spent by year-end 2008 acquiring new aircraft.

Direct Expenses – Direct expense was $425.9 million for 2008 compared to $394.4 million for 2007, an increase of $31.5 million, or 8%. Direct expense in the Air Medical segment increased $23.2 million primarily due to additional hospital-based programs commenced in 2008. We also recorded a $2.7 million pre-tax goodwill impairment charge related to the acquisition of a company related to the Air Medical segment expansion in 2004. Oil and Gas segment direct expense increased $8.0 million due to increased flight hours. There was also a $0.3 million increase in the Technical Services segment direct expenses. These items are discussed in more detail in the Segment Discussion below.

Selling, General and Administrative Expenses – Selling, general and administrative expenses were $31.7 million for 2008 compared to $30.2 million for 2007, an increase of $1.5 million, or 5%. This increase resulted from increased employee costs ($1.8 million), offset by a decrease in other items, net ($0.3 million).

Interest Expense – Interest expense was $15.5 million for 2008, compared to $16.1 million for 2007 due to a decrease in borrowings under our line of credit.

Goodwill Impairment – In the fourth quarter of 2008, the Company recorded a non-cash charge for the impairment of goodwill totaling $2.7 million related to a 2004 acquisition as part of planned expansion in the Air Medical segment. The impairment charge was driven by adverse equity market conditions that caused a decrease in current market multiples as of December 31, 2008, compared with the annual impairment test performed as of December 31, 2007. The charge for goodwill impairment did not impact the Company's normal business operations or cash flow. The Company did not have any goodwill recorded at December 31, 2008, after this charge described above.

Income Taxes – Income tax expense for 2008 was $15.1 million, compared to income tax expense of $17.5 million for 2007. The effective tax rate was 39% for 2008, compared to 38% for 2007. The effective tax rate increased 1% in 2008 from 2007. This increase was the result of reduced Federal Hurricane disaster tax credits available in 2008 (0.3%) and increased state income taxes due to legislation providing for a new Texas income tax (0.5%).

Net Earnings – Our net earnings for 2008 were $23.5 million, compared to earnings of $28.2 million for 2007. Earnings before tax for 2008 were $38.6 million compared to earnings before tax of $45.7 million in 2007. Earnings per diluted share were $1.54 for 2008 as compared to earnings per diluted share of $1.85 for 2007. Included in earnings before tax for 2008 are gains on disposition of assets of $4.5 million, compared to $35.0 million for 2007. The increase in net earnings for 2008 is due to increased revenues and earnings of the medium and heavy aircraft in the Oil and Gas segment, as mentioned previously.

Segment Discussion

Oil and Gas – Oil and Gas segment revenues for 2008 were $324.1 million compared to $286.1 million for 2007, an increase of $38.0 million or 13%. The increase was due to an increase in contracted medium and heavy aircraft, increased flight hours, and also due to the adverse affect of the pilots' strike on 2007 operating revenues. Segment flight hours were 112,341 for 2008 compared to 107,812 for 2007, an increase of 4,529 hours.

The number of aircraft in the segment at December 31, 2008 was 153 compared to 156 aircraft at December 31, 2007. In 2008, we sold or disposed of seven aircraft in the Oil and Gas segment, consisting of five light and two medium aircraft. We also transferred three light aircraft to the Air Medical segment and two light aircraft to the Technical Services segment. We added nine new aircraft to the Oil and Gas segment during 2008, consisting of four light, four medium, and one heavy aircraft.

Direct expense in the Oil and Gas segment increased $8.1 million in 2008 compared to 2007 due to increased fuel expenses ($9.5 million) as a result of additional flight hours and rising fuel costs. Total fuel cost is included in direct expense and reimbursement of a portion of fuel costs above a contracted per gallon amount is included in revenue. Aircraft warranty costs also increased ($4.5 million) due to additional aircraft added to the fleet. All new aircraft come with a manufacturer's warranty that covers defective parts. The increase in our warranty cost was related to an additional warranty that we purchased from the manufacturer on certain aircraft to cover replacement or refurbishment of aircraft parts in accordance with manufacturer specifications. We paid a monthly fee to the manufacturer based on flight hours for the aircraft that were covered under this warranty. In return, the manufacturer provided replacement parts required for maintaining the aircraft. Aircraft parts usage decreased ($3.7 million) due to additional aircraft being on the manufacturer's warranty program and also due to the decreased average age of the aircraft fleet that resulted from the acquisitions of new aircraft. There was also a decrease in aircraft depreciation expense ($1.5 million) due to the change in residual values of the aircraft as previously discussed, and other items, net, decreased ($0.7 million).

Selling, general and administrative expenses were $1.3 million for the year ended December 31, 2008, compared to $1.5 million for the prior year.

Our Oil and Gas segment's operating income was $64.7 million for the year ended December 31, 2008, compared to $34.5 million for the year ended December 31, 2007. The increase of $30.2 million was due to the increase in operating revenues of $38.0 million, offset by the increase in operating expenses of $8.1 million, for the reasons described above. Operating margins were 20% for the year ended December 31, 2008, compared to 12% for the year ended December 31, 2007. The increase in operating margins was due to the increase in heavy and medium contracted aircraft, and flight hours which primarily serve the Gulf of Mexico deepwater market and attract higher rates. In addition, 2007 was adversely affected by the pilots' strike.

Air Medical – Air Medical segment revenues were $174.7 million for 2008 compared to $149.6 million for 2007, an increase of $25.1 million. The increase was primarily related to the increase in patient transports, which totaled

22,647 for 2008 compared to 21,710 transports for 2007, and increased hospital-based contracts. Flight hours were 36,732 for the year ended December 31, 2008, compared to 31,341 for the year ended December 31, 2007.

The number of aircraft in the segment was 90 at December 31, 2008, compared to 77 at December 31, 2007. In 2008, we transferred three light aircraft to the Air Medical segment from the Oil and Gas segment, and added eight new light aircraft. We also added four customer-owned light aircraft. We sold or disposed of two light aircraft.

Direct expense in our Air Medical segment was $160.9 million for 2008 compared to $137.7 million for 2007. The $23.2 million increase was primarily due to increases in employee compensation costs ($12.2 million) primarily due to an increase in personnel related to additional hospital-based contracts and also due in part to employee costs associated with independent provider programs opened or commenced during 2007 and operational for all of 2008. There were also compensation rate increases in the Air Medical segment. Fuel expenses increased ($1.9 million) due primarily to increased fuel costs per gallon, aircraft parts usage increased ($1.2 million), and component repair costs increased ($1.4 million). There was also an increase in insurance expense ($0.7 million) as a result of a charge for the retention portion of the aviation insurance and a workers' compensation amount related to accidents in the Air Medical segment in the second quarter of 2008. Aircraft warranty costs increased ($1.4 million) net of a $1.5 million credit for termination of a manufacturer's warranty program. Base costs, which include fees for outside medical personnel and billing and collection services, increased ($4.2 million) due to increased revenues and additional locations. We also recorded a $2.7 million pre-tax goodwill impairment charge related to the acquisition of a company related to the Air Medical segment expansion in 2004.

Selling, general and administrative expenses were $8.7 million for the year ended December 31, 2008, compared to $7.9 million for the year ended December 31, 2007. Air Medical operations are headquartered in Phoenix, Arizona, where we maintain significant separate facilities and administrative staff dedicated to this segment. Those costs are charged directly to the Air Medical segment, resulting in higher selling, general and administrative expenses as compared to our other reportable segments.

Our Air Medical segment's operating income was $5.1 million for the year ended December 31, 2008, compared to operating income of $4.0 million for the year ended December 31, 2007. Operating margins were 3% in the year ended December 31, 2008 and December 31, 2007. Relative to our Air Medical segment in 2008, we saw some adverse impact in certain regions due to the current economic conditions.

Technical Services – Technical Services revenues were $10.6 million for the year ended December 31, 2008, compared to $10.7 million for the year ended December 31, 2007. Direct expense was $6.9 million for the year ended December 31, 2008, compared to $6.6 million for the year ended December 31, 2007.

The Technical Services segment had operating income of $3.7 million for the year ended December 31, 2008, compared to $4.0 million for the year ended December 31, 2007. Operating margins in the Technical Services segment were 35% for the year ended December 31, 2008, compared to 38% for the same period in 2007. Technical Services includes maintenance and repairs performed primarily for our existing customers that own their aircraft. These services are generally labor intensive with higher operating margins as compared to other segments.

Liquidity and Capital Resources

General

Our ongoing liquidity requirements arise primarily from the funding of working capital needs, the acquisition or leasing of aircraft, the maintenance and refurbishment of aircraft, improvement of facilities, and acquisition of equipment and inventory. Our principal sources of liquidity historically have been net cash provided by our operations and borrowings under our revolving credit facility, as augmented in recent years by the issuance of our Senior Notes in 2002, which were refinanced in 2006, and the sale of non-voting common stock in 2005 and 2006. To the extent we do not use cash, short-term investments or borrowings to finance our aircraft acquisitions, we can typically enter into operating leases to fund these acquisitions. The credit markets and related turmoil in the global financial system may have an adverse impact on our business and our financial conditions. We cannot predict our ability to obtain lease financing due to credit availability, and this could limit our ability to fund our future growth and operations. While we have been able to obtain proposals and lease financing, we cannot predict future availability nor the effects on pricing for lease financing.

Cash Flow

Our cash position was $2.5 million at December 31, 2009 compared to $1.2 million at December 31, 2008. Short-term investments were $75.1 million at December 31, 2009 compared to $42.1 million at December 31, 2008. Working capital was $207.0 million at December 31, 2009, as compared to $174.0 million at December 31, 2008, an increase of $30.2 million. The increase in working capital was primarily attributable to an increase in cash and cash equivalents of $1.3 million, an increase in short-term investments of $33.0 million due in part to receipt of proceeds from the disposition of an aircraft and from refunds of deposits on aircraft, and a decrease in accounts receivable of $17.0 million due to decreased revenues and a decrease in days outstanding.

Net cash provided by operating activities in 2009 was $55.3 million, compared to 43.8 million in 2008. The effects of the 2009 positive cash flow from operating activities was due in part to net earnings of $13.0 million, adjusted for gains on sales of assets and other non cash items of $36.8 million. The remaining $5.5 million in cash from 2009 operating activities was generated from changes in working capital balances. The effects of the 2008 positive cash flow from operating activities was due in part to net earnings of $23.5 million, adjusted for gains on sales of assets and other non cash items of $36.9 million. There was a reduction in cash from 2008 operating activities of $16.6 million generated from changes in working capital balances.

Net cash used in investing activities was $69.2 million for 2009, compared to $47.3 million for 2008. Capital expenditures were $57.0 million for 2009 compared to $77.6 million for 2008. Capital expenditures for 2009 included $50.6 million for aircraft purchases, upgrades, and refurbishments. Capital expenditures for 2008 included $69.0 million for aircraft purchases, upgrades, and refurbishments. Gross proceeds from aircraft sales and dispositions were $9.2 million for 2009 compared to $18.4 million 2008.

Financing activities provided $15.3 million in cash for 2009 compared to $3.2 million provided in 2008. This increase is primarily a result of borrowing from our line of credit discussed below. The increased borrowing was due to aircraft purchases.

We have a net operating loss of $122.6 million for tax purposes at December 31, 2009. This tax carryforward was generated by tax depreciation on aircraft purchases.

Credit Facility

At December 31, 2008, we had a $50 million revolving credit facility with a commercial bank that was due to expire on September 1, 2010. Effective August 5, 2009, we executed a new credit agreement with a syndicate of three commercial banks providing a $75 million revolving credit facility maturing in September 2011. The interest rate is the prime rate plus 100 basis points. Other terms are substantially similar to the prior facility. The new facility includes financial covenants related to working capital and funded debt to net worth, identical to the previous credit agreement, and the consolidated net worth covenant was increased from $400 million to $425 million. As of December 31, 2009 and 2008, we were in compliance with the covenants under our credit agreements.

For additional information, see Note 4 to our consolidated financial statements.

At December 31, 2009, we had $18.3 million in borrowings under the facility, and $5.1 million in letters of credit, and our availability under the facility was $51.6 million. During 2009, the weighted average effective interest rate on amounts borrowed under the facility was 3.58%, compared to 4.26% in 2008.

Contractual Obligations

The table below sets out our contractual obligations as of December 31, 2009 related to operating lease obligations, credit facility, and the 7.125% Senior Notes due 2013. The operating leases are not recorded as liabilities on the balance sheet, and payments are treated as an expense as incurred. Each contractual obligation included in the table contains various terms, conditions, or covenants which, if violated, accelerate the payment of that obligation. We currently lease 25 aircraft included in the lease obligations below.

		Payment Due by Year					
	Total	2010	2011	2012	2013	2014	Beyond 2014
				(Thousands of dollars)			
Aircraft lease obligations	231,396	32,604	33,872	34,539	34,904	34,904	60,573
Other lease obligations	18,392	3,409	2,908	1,976	1,465	1,292	7,342
Long term debt	218,305	--	18,305	--	200,000	--	--
	$ 468,093	$ 36,013	$ 55,085	$ 36,515	$ 236,369	$ 36,196	$ 67,915

Interest costs on the long-term debt obligations set forth above, assuming the amounts outstanding at December 31, 2009 remain outstanding until maturity, and without considering any additional debt that may be obtained relative to our future purchase commitments for aircraft, are $14.2 million for our Senior Notes for 2010 and each successive year through 2013, including amortization of debt issuance costs, and $0.5 million for borrowing under our credit facility for 2010, and $0.5 million for 2011.

There were no significant purchase commitments at December 31, 2009. We have purchase options on three leased heavy aircraft which will be exercisable in 2010. The amounts are approximately $12.6 million each. A decision as to whether we will exercise these options will be made as we get nearer the option dates.

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these consolidated financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosures of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to inventories of spare parts, long-lived assets, income taxes, and self-insurance liabilities. We base our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates, and the differences may be material. We believe the following critical accounting policies affect our more significant judgments and estimates used in preparation of our consolidated financial statements.

Revenues related to Air Medical services are recorded net of contractual allowances under agreements with third party payors and estimated uncompensated care when services are provided. We estimate contractual allowances and uncompensated care based on historical collection experience by payor category. The main payor categories are Medicaid, Medicare, Insurance, and Self-Pay. Payor mix and changes in reimbursement rates are the factors most subject to sensitivity and variability in calculating our allowances. We compute a historical payment analysis of accounts paid in full, by category. The allowance percentages calculated are applied to the payor categories, and the necessary adjustments are made to the revenue allowance.

We maintain a significant parts inventory to service our own aircraft along with the aircraft and components of customers. Portions of that inventory are used parts that are often exchanged with parts removed from aircraft or components and reworked to a useable condition. We use systematic procedures to estimate the valuation of the used parts, which includes consideration of their condition and continuing utility. If our valuation of these parts should be significantly different from amounts ultimately realizable or if we discontinue using or servicing certain aircraft models, then we may have to record a write-down of our inventory. We also record provisions against inventory for obsolete and slow-moving parts, relying principally on specific identification of such inventory. If we fail to identify such parts, additional provisions may be necessary.

Our principal long-lived assets are aircraft. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We measure recoverability of assets to be held and used by comparing the carrying amount of an asset to the future undiscounted net cash flows that we expect the asset to generate. When an asset is determined to be impaired, we recognize the impairment amount, which is the amount by which the carrying value of the asset exceeds its estimated fair value. Similarly, we report assets that we expect to sell at the lower of the carrying amount or fair value less costs to sell. Future adverse market conditions or poor operating results could result in an inability to recover the current carrying value of certain long-lived assets, thereby possibly requiring an impairment charge in the future.

Effective July 1, 2007, we changed the estimated residual value of certain aircraft from 40% to 54%. We believe the revised amounts reflect our historical experience and more appropriately match costs over the estimated useful lives and salvage values of these assets. The change in residual values of certain aircraft was based on our experience in sales of such aircraft and industry data which indicated that these aircraft were retaining on average a salvage value of at least 54% by model type. The effect of this change for 2007 was a reduction in depreciation expense of $1.6 million ($1.0 million after tax or $0.07 per diluted share).

We must make estimates for certain of our liabilities and expenses, losses, and gains related to self-insured programs, insurance deductibles, and good-experience premium returns. Our group medical insurance program is largely self-insured, and we use estimates to record our periodic expenses related to that program. We also carry deductibles on our workers' compensation program and aircraft hull and liability insurance, and poor experience or higher accidents rates could result in additional recorded losses.

We estimate what our effective tax rate will be for the full year and record a quarterly income tax expense in accordance with the anticipated effective annual tax rate. As the year progresses, we continually refine our estimate based upon actual events and income before income taxes by jurisdiction during the year. This process may result in a change to our expected effective tax rate for the year. When this occurs, we adjust the income tax expense during the quarter in which the change in estimate occurs so that the year-to-date expense equals the annual rate.

Goodwill

Goodwill represents the excess of the cost of net assets acquired in business combinations over the fair value of the identifiable tangible and intangible assets acquired and liabilities assumed in a business combination. In accordance with the provisions of Accounting Standards Codification ("ASC") 350, "Intangibles-Goodwill and Other," previously SFAS No. 142, goodwill is reviewed for impairment annually, as of December 31 for the most recent completed fiscal year, or more frequently whenever events or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. Goodwill is tested for impairment at the reporting unit level using a two-step process. The first step of the impairment test identifies potential impairment by comparing the fair value of a reporting unit to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, goodwill of the reporting unit is not considered impaired and the second step of the impairment test is not required. If the carrying value of a reporting unit exceeds its fair value, the second step of the impairment test is performed to measure the amount of impairment loss, if any. The second step of the impairment test compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying value of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. The implied fair value of goodwill is determined in the same manner as the amount of goodwill recognized in a business combination.

In the fourth quarter of 2008, the Company recorded a non-cash charge for the impairment of goodwill totaling $2.7 million related to a 2004 acquisition as part of planned expansion in the Air Medical segment. The Company performed its required annual impairment test for goodwill using a discounted cash flow analysis supported by comparative market multiples to determine the fair values of the Air Medical segment compared to their book values. The test as of December 31, 2008 indicated that the book values for the Air Medical segment exceeded the fair values of the segment on that basis. The impairment charge was primarily driven by adverse equity market conditions that caused a decrease in market multiples as of December 31, 2008, compared with the test performed as of December 31, 2007. The Company did not have any goodwill recorded at December 31, 2009 or 2008, after this charge described above.

New Accounting Pronouncements

For a discussion of new accounting pronouncements applicable to the Company, see Note 1 to the Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings are subject to change in short-term interest rates due to the variable interest rate in our revolving credit facility. Based on the $18.3 million in borrowings outstanding as of December 31, 2009, a ten percent increase in the interest rate to 4.675% would reduce our annual pre-tax earnings by $0.8 million.

Our Senior Notes bear interest at a fixed rate of 7.125% and therefore changes in market interest rates do not affect our interest payment obligations on the notes. The market value of the Senior Notes will vary as changes occur in market interest rates, the remaining maturity of the Senior Notes, and our credit-worthiness. At December 31, 2009, the market value of the $200.0 million principal amounts of the Notes was $194.0 million.

PHI, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Thousands of dollars, except share data)

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,501	$ 1,159
Short-term investments	75,138	42,121
Accounts receivable – net		
Trade	90,518	104,912
Other	3,885	6,510
Inventories of spare parts - net	61,501	58,249
Other current assets	11,018	10,687
Income taxes receivable	740	982
Total current assets	245,301	224,620
Other	11,669	23,988
Property and equipment - net	548,536	528,574
Total assets	$ 805,506	$ 777,182
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Accounts payable	$ 14,935	$ 25,449
Accrued liabilities	23,342	25,193
Total current liabilities	38,277	50,642
Long-term debt	218,305	203,000
Deferred income taxes	73,409	65,175
Other long-term liabilities	10,067	5,969
Commitments and contingencies (Note 9)		
Shareholders' Equity:		
Voting common stock – par value of $0.10; 12,500,000 shares authorized, 2,852,616 issued and outstanding	285	285
Non-voting common stock – par value of $0.10; 25,000,000 shares authorized		
Issued and outstanding:		
2009 – 12,458,992; 2008 – 12,448,992	1,246	1,245
Additional paid-in capital	291,403	291,262
Accumulated other comprehensive (loss) income	(13)	45
Retained earnings	172,527	159,559
Total shareholders' equity	465,448	452,396
Total liabilities and shareholders' equity	$ 805,506	$ 777,182

The accompanying notes are an integral part of these consolidated financial statements.

PHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Thousands of dollars and shares, except per share data)

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Operating revenues, net	$ 487,175	$ 509,514	$ 446,406
Gain on disposition of assets, net	111	4,468	34,953
Other, principally interest income	225	522	5,098
	487,511	514,504	486,457
Expenses:			
Direct expenses	418,627	425,953	394,421
Selling, general and administrative expenses	31,006	31,657	30,226
Interest expense	16,037	15,515	16,121
Goodwill impairment charges	--	2,747	--
	465,670	475,872	440,768
Earnings before income taxes	21,841	38,632	45,689
Income tax expense	8,873	15,117	17,471
Net earnings	$ 12,968	$ 23,515	$ 28,218
Earnings per share:			
Basic	$ 0.85	$ 1.54	$ 1.85
Diluted	$ 0.85	$ 1.54	$ 1.85
Weighted average shares outstanding:			
Basic	15,307	15,295	15,279
Diluted	15,307	15,301	15,288

The accompanying notes are an integral part of these consolidated financial statements.

PHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Thousands of dollars and shares)

	Voting Common Stock		Non-Voting Common Stock		Additional Paid-in	Accumulated Other Comprehensive	Retained	Total Share-Holders'
	Shares	Amount	Shares	Amount	Capital	Income (Loss)	Earnings	Equity
Balance at December 31, 2006	2,853	$ 285	12,424	$ 1,242	$ 290,695	$ 77	$ 107,826	$ 400,125
Net earnings	--	--	--	--	--	--	28,218	28,218
Changes in pension plan assets and benefit obligations	--	--	--	--	--	(16)	--	(16)
Total comprehensive income								28,202
Stock options exercised	--	--	15	2	340	--	--	342
Balance at December 31, 2007	2,853	285	12,439	1,244	291,035	61	136,044	428,669
Net earnings	--	--	--	--	--	--	23,515	23,515
Changes in pension plan assets and benefit obligations	--	--	--	--	--	(16)	--	(16)
Total comprehensive income								23,499
Stock options exercised	--	--	10	1	227	--	--	228
Balance at December 31, 2008	2,853	285	12,449	1,245	291,262	45	159,559	452,396
Net earnings	--	--	--	--	--	--	12,968	12,968
Changes in pension plan assets and benefit obligations	--	--	--	--	--	(58)	--	(58)
Total comprehensive income								12,910
Stock options exercised	--	--	10	1	141	--	--	142
Balance at December 31, 2009	2,853	$ 285	12,459	$ 1,246	$ 291,403	$ (13)	$ 172,527	$ 465,448

The accompanying notes are an integral part of these consolidated financial statements.

PHI, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)

	Year Ended December 31, 2009	Year Ended December 31, 2008	Year Ended December 31, 2007
Operating activities:			
Net earnings	$ 12,968	$ 23,515	$ 28,218
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	27,764	26,944	30,047
Goodwill impairment	--	2,747	--
Deferred income taxes	8,603	13,531	16,498
Gain on asset dispositions	(111)	(4,468)	(34,953)
Other	930	922	868
Changes in operating assets and liabilities:			
Accounts receivable	17,019	(13,338)	(8,790)
Inventories of spare parts	(3,252)	(2,418)	(1,492)
Income taxes receivable	242	(457)	110
Other current assets	(1,714)	1,208	(1,824)
Accounts payable and accrued liabilities	(11,360)	(2,754)	(2,100)
Other long-term liabilities	4,183	(1,634)	(1,356)
Net cash provided by operating activities	55,272	43,798	25,226
Investing activities:			
Purchase of property and equipment	(57,035)	(77,590)	(159,715)
Proceeds from asset dispositions	9,217	18,394	58,105
Purchase of short-term investments	(47,704)	(43,976)	(134,241)
Proceeds from sale of short-term investments	14,687	64,826	224,685
Refund (payment) of deposits on aircraft	11,600	(8,946)	(8,298)
Net cash used in investing activities	(69,235)	(47,292)	(19,464)
Financing activities:			
Proceeds from line of credit	37,750	15,800	37,200
Payments on line of credit	(22,445)	(12,800)	(42,700)
Proceeds from exercise of stock options	--	228	343
Net cash provided by (used in) financing activities	15,305	3,228	(5,157)
Increase (decrease) in cash and cash equivalents	1,342	(266)	605
Cash and cash equivalents, beginning of year	1,159	1,425	820
Cash and cash equivalents, end of year	$ 2,501	$ 1,159	$ 1,425
Supplemental Disclosures Cash Flow Information			
Accrued payables related to purchases of property and equipment	$ 312	$ 1,510	$ 1,906

The accompanying notes are an integral part of these consolidated financial statements.